

CITY OF PAULLINA, IOWA
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION AND
SCHEDULE OF FINDINGS

For the Year Ended
June 30, 2014

**CITY OF PAULLINA, IOWA
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CITY OF PAULLINA, IOWA

OFFICIALS

Name	Title	Term Expires
Mike Otto	Mayor	January, 2016
Jay Jones	Council Member	January, 2018
Justin Stamer	Council Member	January, 2016
John Ihle	Council Member	January, 2016
Charles Harper	Council Member	January, 2016
Dan Schreck	Council Member	January, 2018
Sandy Fritz	City Clerk/Administrator	January, 2016
Johnene Altman	Treasurer	January, 2015
Tisha Halverson	Attorney	January, 2015

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
Paullina, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Paullina, Iowa, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Paullina, Iowa, as of June 30, 2014, and the respective changes in the cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

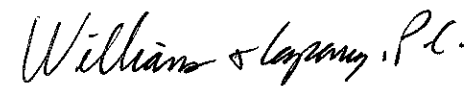
Other Matters

Supplementary and Other Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 8 and 22 through 23 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 3, 2014 on our consideration of the City of Paullina's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Paullina's internal control over financial reporting and compliance.


Certified Public Accountants

Le Mars, Iowa
December 3, 2014

CITY OF PAULLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014

The City of Paullina provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2014. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2013-2014 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 11.3%, or approximately \$106,655 from fiscal year 2013 to fiscal 2014. Property tax increased approximately 13.5%. Taxes collected in fiscal year 2013 totaled \$233,032 and \$264,547 in fiscal year 2014. Local Option Sales Tax receipts increased \$687 from fiscal year 2013 to fiscal year 2014. Intergovernmental receipts decreased 58.9% or \$200,270 from fiscal year 2013 to fiscal year 2014 due to the City receiving CDBG funds in fiscal year 2013 and none in fiscal year 2014. Sale of Capital Assets increased from \$1,256 in fiscal year 2013 to \$301,665 in fiscal year 2014 due to the increase in land sales in the business park.
- Disbursements of the City's governmental activities increased 21% or approximately \$196,128 in fiscal year 2014 from fiscal year 2013. Public Safety increased \$18,693, culture and recreation increased \$81,780 due to the bike trail and Swanson Complex and capital projects increased \$90,378 with the addition of ICON into the Paullina Business Park.
- The City's total cash basis net assets increased 3.2% or approximately \$90,055 from June 30, 2013 to June 30, 2014.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted

accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government –Wide Financial Statements

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Position – Cash Basis reports information which helps answer this question.

The Statement of Activities and Net Position presents the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Position presents is divided into two kinds of activities:

- Government Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, the sanitary sewer system and the electric system. These activities are financed primarily by user charges

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, and 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The city maintains four Enterprise Funds to provide separate information for the Water Fund, Electric Fund, Sewer Fund and Telecom Fund, considered to be major funds of the City.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased \$132,933. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Position of Governmental Activities		
	Year Ended June 30,	
	2014	2013
Receipts		
Property Taxes	\$ 264,547	\$ 233,032
TIF Revenue	7,494	7,328
Local Option Sales Tax.....	109,149	108,462
Licenses and Permits	2,869	2,622
Use of Money and Property	21,872	25,187
Charges for Services	118,176	112,172
Intergovernmental	139,327	339,597
Special Assessment	3,278	3,459
Miscellaneous.....	78,939	107,546
Sales of Capital Assets	301,665	1,256
Total Receipts	1,047,316	940,661
Disbursements:		
Public Safety.....	273,673	254,980
Public Works.....	169,761	234,782
Health and Social Services.....	3,600	4,000
Culture and Recreation.....	163,310	81,350
Community and Economic Development.....	26,708	1,395
General Government	109,601	66,071
Debt Service	105,925	104,069
Capital Projects.....	314,703	224,325
Total Disbursements	1,167,281	971,153
(Decrease) in Cash Basis Net Position – Before Transfers	(119,965)	(30,492)
Total other financing sources.....	252,898	60,594
Cash Basis Net Position – Beginning of Year.....	902,593	872,491
Cash Basis Net Position – End of Year	\$ 1,035,526	\$ 902,593

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

The Cities property tax rate for fiscal year 2014 was at 11.01987% versus 2013 at 10.05513%. The Council continues to try to attain a lower tax rate due to several increases in the utility rates.

The cost of all governmental activities increased this year by 20%, to \$1,167,281 compared to \$971,153 last year. The increase in disbursements is due to the repair of the bike trail, changing the City Clerk's wages from Water Fund to the General Fund and the water and sewer line for ICON.

Changes in Cash Basis Net Position of Business Type Activities

	Year Ended June 30,	
	2014	2013
Receipts:		
Operating Receipts:		
Water	\$ 195,871	\$ 211,068
Electric	1,241,916	1,158,346
Sewer	146,423	147,058
Telecom	88,167	84,745
Interest	9,702	10,821
Proceeds from Debt	-	485,000
Total Receipts	1,682,079	2,097,038
Disbursements:		
Operating Disbursements:		
Water	224,291	206,154
Electric	1,019,889	933,430
Sewer	144,766	178,378
Telecom	83,313	613,576
Total Disbursements	1,472,059	1,931,538
Change in Cash Basis Net Position - Before Transfers	210,020	(165,500)
Net Transfers	(252,898)	(60,594)
Change in Cash Basis Net Position	(42,878)	104,906
Cash Basis Net Position – Beginning of Year	1,879,167	1,774,261
Cash Basis Net Position – End of Year	\$ 1,836,289	\$ 1,879,167

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased by \$43,090 to \$214,566 due to an increase in the amount of transfers into the fund.
- The Electric Fund cash balance increased by \$54,836 to \$1,215,256 the Power Cost Adjustment is still in place.
- The Sewer Fund cash balance increased \$38,579 due to an increase in the amount of transfers into the fund.
- Telecom Fund cash balance decreased by \$93,203 to \$357,937. The City did not collect any retained earnings from TCA and used \$100,000 to finance the ICON project.

• BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. This amendment was approved on May 19, 2014 and resulted in an increase in budgeted receipts of \$754,926 and an increase in budgeted disbursements of \$890,960. The City had sufficient cash balances to absorb these additional costs. The majority of the budget increase was due to the ICON project in the Paullina Business Park. Additional expenses occurred in the police department and recreation department.

DEBT ADMINISTRATION

A comparison of the City's debt at June 30, 2013 to June 30, 2014 follows:

	Year Ended June 30,	
	2014	2013
General Obligation (Sewer Project)	\$ 300,000	\$ 335,000
Business Park	175,000	230,000
Telecom	335,046	410,000
Electric	115,000	230,000
Sewer Relining	385,000	409,000
Total	\$ 1,310,046	\$ 1,614,000

ECONOMIC FACTORS

The City continues with the replacement of aging equipment which will need to be replaced in the coming years and water department repairs

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, contact Sandy Fritz, City Clerk, 127 S. Main St. Paullina, Iowa 51046, (712) 949-3428.

BASIC FINANCIAL STATEMENTS

CITY OF PAULLINA, IOWA
STATEMENT OF ACTIVITIES AND NET POSITION - CASH BASIS
As of and For the Year Ended June 30, 2014

Functions/Programs	Disbursements	Program Receipts		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
Public Safety	\$ 273,673	\$ 59,820	\$ 19,100	\$ -
Public Works	169,761	83,216	105,446	-
Health and Social Services	3,600	-	-	-
Culture and Recreation	163,310	3,022	-	-
Community and Economic Development	26,708	-	-	-
General Government	109,601	28,264	-	-
Capital Outlay	314,703	-	-	-
Principal	90,000	-	-	-
Interest	15,925	-	-	-
Total governmental activities	<u>1,167,281</u>	<u>174,322</u>	<u>124,546</u>	<u>-</u>
Business-Type Activities:				
Water Utility	224,291	195,871	-	-
Sewer Utility	144,766	146,423	-	-
Electric Utility	1,019,689	1,241,916	-	-
Telecom	83,313	88,167	-	-
Total Business-Type Activities:	<u>1,472,059</u>	<u>1,672,377</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u>\$ 2,639,340</u>	<u>\$ 1,846,699</u>	<u>\$ 124,546</u>	<u>\$ -</u>

General Receipts:
Property taxes
Tax Increment Financing
Local Option Sales Tax
Interest
Intergovernmental
Sale of Assets
Miscellaneous
Interfund Transfers
Total general receipts and transfers
Change in cash basis net position
Cash basis net position - beginning
Cash basis net position - ending

Cash Basis Net Position
Restricted:
Streets
Debt Service
Employee Benefits
Unrestricted
Total Cash Basis Net Position

Exhibit A

Net (Disbursements) Receipts and Changes in Net Position		
Governmental Activities	Business-Type Activities	Total
\$ (194,753)		\$ (194,753)
18,901		18,901
(3,600)		(3,600)
(160,288)		(160,288)
(26,708)		(26,708)
(81,337)		(81,337)
(314,703)		(314,703)
(90,000)		(90,000)
(15,925)		(15,925)
<u>(868,413)</u>		<u>(868,413)</u>
	\$ (28,420)	(28,420)
	1,657	1,657
	222,227	222,227
	4,854	4,854
	<u>200,318</u>	<u>200,318</u>
<u>(868,413)</u>	<u>200,318</u>	<u>(668,095)</u>
267,826	-	267,826
7,494	-	7,494
109,149	-	109,149
4,643	9,702	14,345
3,745	-	3,745
301,665	-	301,665
53,926	-	53,926
252,898	(252,898)	-
<u>1,001,346</u>	<u>(243,196)</u>	<u>758,150</u>
132,933	(42,878)	90,055
902,593	1,879,167	2,781,760
<u>\$ 1,035,526</u>	<u>\$ 1,836,289</u>	<u>\$ 2,871,815</u>
\$ 266,248	\$ -	\$ 266,248
139,171	221,618	360,789
78,781	-	78,781
551,326	1,614,671	2,165,997
<u>\$ 1,035,526</u>	<u>\$ 1,836,289</u>	<u>\$ 2,871,815</u>

See Accompanying Notes to Financial Statements

CITY OF PAULLINA, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
Governmental Funds
As of and For the Year Ended June 30, 2014

	General	Special Revenue Road Use Tax	Capital Project Business Park
Receipts:			
Property Taxes	\$ 215,437	\$ -	\$ -
Special Assessments	-	-	-
Licenses and Permits	2,869	-	-
Intergovernmental	33,881	105,446	-
Charges for Services	118,176	-	-
Contributions	27,636	-	-
Tax Increment Financing	-	-	-
Local Option Sales Tax	-	-	-
Rental of City Property	17,229	-	-
Interest on Investments	1,922	-	1,135
Miscellaneous	32,097	-	19,206
Total Receipts	449,247	105,446	20,341
Disbursements:			
Public Safety	241,772	-	-
Public Works	156,763	12,845	-
Health and Social Services	3,600	-	-
Culture and Recreation	157,914	-	-
Community and Economic Development	26,708	-	-
General Government	93,611	-	-
Capital Projects	-	-	314,703
Debt Service:			
Principal Retirement	-	-	-
Interest	-	-	-
Total Disbursements	680,368	12,845	314,703
Excess (Deficiency) of Receipts to Disbursements	(231,121)	92,601	(294,362)
Other financing sources (uses):			
Sale of Assets	1,800	-	299,865
Transfers In	311,817	-	200,000
Transfers Out	(216,525)	-	-
Total other financing sources	97,092	-	499,865
Change in Cash Balances	(134,029)	92,601	205,503
Cash Balances Beginning of Year	291,903	173,647	164,184
Cash Balances End of Year	\$ 157,874	\$ 266,248	\$ 369,687
Cash Basis Fund Balances			
Restricted for:			
Debt Service	\$ -	\$ -	\$ -
Streets	-	266,248	-
Employee Benefits	-	-	-
Assigned to:			
Capital Improvements	-	-	369,687
Library	51,536	-	-
Fire Department	56,213	-	-
Unassigned	50,125	-	-
Total Cash Basis Fund Balances	\$ 157,874	\$ 266,248	\$ 369,687

Exhibit B

Debt Service	Other Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 49,110	\$ 264,547
-	3,278	3,278
-	-	2,869
-	-	139,327
-	-	118,176
-	-	27,636
-	7,494	7,494
-	109,149	109,149
-	-	17,229
1,024	562	4,643
-	-	51,303
<u>1,024</u>	<u>169,593</u>	<u>745,651</u>
-	31,901	273,673
-	153	169,761
-	-	3,600
-	5,396	163,310
-	-	26,708
-	15,990	109,601
-	-	314,703
90,000	-	90,000
15,925	-	15,925
<u>105,925</u>	<u>53,440</u>	<u>1,167,281</u>
<u>(104,901)</u>	<u>116,153</u>	<u>(421,630)</u>
-	-	301,665
128,975	21,830	662,622
(25,000)	(168,199)	(409,724)
<u>103,975</u>	<u>(146,369)</u>	<u>554,563</u>
(926)	(30,216)	132,933
<u>140,097</u>	<u>132,762</u>	<u>902,593</u>
<u>\$ 139,171</u>	<u>\$ 102,546</u>	<u>\$ 1,035,526</u>
\$ 139,171	\$ -	\$ 139,171
-	-	266,248
-	78,781	78,781
-	23,765	393,452
-	-	51,536
-	-	56,213
-	-	50,125
<u>\$ 139,171</u>	<u>\$ 102,546</u>	<u>\$ 1,035,526</u>

See Accompanying Notes to Financial Statements

CITY OF PAULLINA, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
Proprietary Funds
As of and For the Year Ended June 30, 2014

	Business Type Activities	
	Water Utility	Electric Utility
Operating Receipts:		
Charges for Services	\$ 195,871	\$ 1,241,916
Total Operating Receipts	<u>195,871</u>	<u>1,241,916</u>
Operating Disbursements:		
Purchased Power	-	565,019
Employee Services	86,985	225,862
Distribution / Collection	14,370	7,935
Supplies	27,718	27,726
Repairs	68,960	3,474
Administrative and General	26,258	69,803
Total Operating Disbursements	<u>224,291</u>	<u>899,819</u>
Excess (Deficiency) of Receipts Over Disbursements	(28,420)	342,097
Non-Operating Receipts (Disbursements):		
Interest Income	1,330	6,265
Interest Expense	-	(4,870)
Principal Payments	-	(115,000)
Total Non-Operating Receipts (Disbursements)	<u>1,330</u>	<u>(113,605)</u>
Excess (Deficiency) of Receipts Over Disbursements	(27,090)	228,492
Transfers In	-	16,525
Transfers Out	<u>(16,000)</u>	<u>(190,181)</u>
Change in Cash Balances	(43,090)	54,836
Cash Balances Beginning of Year	<u>257,656</u>	<u>1,160,420</u>
Cash Balances End of Year	<u><u>214,566</u></u>	<u><u>1,215,256</u></u>
Cash Basis Fund Balances		
Restricted for Debt Service	-	105,654
Unrestricted	214,566	1,109,602
Total Cash Basis Fund Balances	<u>\$ 214,566</u>	<u>\$ 1,215,256</u>

See Accompanying Notes to Financial Statements

Exhibit C

Business Type Activities		
Sewer Utility	Telecom	Total
\$ 146,423	\$ 88,167	\$ 1,672,377
146,423	88,167	1,672,377
-	-	565,019
74,459	-	387,306
24,357	-	46,662
3,448	-	58,892
705	-	73,139
4,504	-	100,565
107,473	-	1,231,583
38,950	88,167	440,794
164	1,943	9,702
(13,293)	(8,359)	(26,522)
(24,000)	(74,954)	(213,954)
(37,129)	(81,370)	(230,774)
1,821	6,797	210,020
36,758	-	53,283
-	(100,000)	(306,181)
38,579	(93,203)	(42,878)
9,951	451,140	1,879,167
48,530	357,937	1,836,289
-	115,964	221,618
48,530	241,973	1,614,671
\$ 48,530	\$ 357,937	\$ 1,836,289

CITY OF PAULLINA, IOWA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Paullina is a political subdivision of the State of Iowa located in O'Brien County. It was first incorporated in 1883 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture, recreation, public improvements and general administrative services. The City also provides water, sewer, electrical, and cable TV, for its citizens.

A. Reporting Entity

For Financial reporting purposes, the City of Paullina has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The City of Paullina has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizens of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: County Emergency Management Commission, County Landfill Board, and County Economic Development Board.

B. Basis of Presentation

Government-wide Financial Statements – The Cash Basis Statement of Activities and Net Position – reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in three categories:

Nonexpendable restricted net position is subject to externally imposed stipulations which require them to be maintained permanently by the City. The City currently has no nonspendable restricted net position.

Expendable restricted net position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

CITY OF PAULLINA, IOWA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Unrestricted net position consists of net position not meeting the definition of the preceding categories. Unrestricted net position often has constraints on resources imposed by management, which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and (2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

Capital Projects:

The Business Park fund is utilized by the City to work with its developers to attract new businesses to the Paullina area and to continue to develop the City's Business Park.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Electric Fund accounts for the operation and maintenance of the City's electric system.

The Telecom Fund accounts for the operations of the cable television system.

CITY OF PAULLINA, IOWA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principals.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there is both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances:

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned - Amounts the Council intends to use for specific purposes.

Unassigned - All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information.

**CITY OF PAULLINA, IOWA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

Note 2 – CASH AND POOLED INVESTMENTS

The City's deposits at June 30, 2014 were entirely covered by Federal depository insurance, or by the state sinking fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high-rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments at June 30, 2014; however the City's time deposits were as follows:

	<u>Maturities</u>	
Certificates of Deposit	07/15/14 – 06/25/15	<u>\$458,297</u>

Interest Rate Risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

NOTE 3 – BONDS AND NOTES PAYABLE

The City's computed legal debt limit as of June 30, 2014, is \$1,978,578 of which \$475,000 is committed for outstanding general obligation debt.

The following is a summary of bond transactions of the City for the year ended June 30, 2014:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
	<u>Bonds and Notes Payable by Debt Service Fund</u>	<u>Bonds and Notes Paid by Enterprise Funds</u>
Primary Government		
Bonds and notes payable July 1, 2013	\$ 565,000	\$ 1,049,000
Plus: bonds and notes issued	-	-
Less: payments	(90,000)	(213,954)
Bonds and notes payable June 30, 2014	<u>\$ 475,000</u>	<u>\$ 835,046</u>
Due within one year	<u>\$ 90,000</u>	<u>\$ 220,000</u>

CITY OF PAULLINA, IOWA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 3 – BONDS AND NOTES PAYABLE (CONTINUED)

The City of Paullina had the following outstanding bonds as of June 30, 2014:

Bond	Date of Issue	Interest Rate	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding June 30, 2014
General Obligation	04/04/12	.75% - 2.10%	2022	\$35,000 - \$40,000	\$ 370,000	\$ 300,000
Business Park	09/14/06	3.80 - 4.25%	2017	\$45,000 - \$60,000	515,000	175,000
Telecom	10/04/12	2%	2018	\$75,000 - \$85,000	485,000	335,046
Electric	06/15/11	1.00% - 2.10%	2016	\$105,000 - \$120,000	445,000	115,000
Sewer Relining	12/01/07	3.00%	2027	\$21,000 - \$35,000	520,000	385,000
Total Bonds Due					<u>\$ 2,335,000</u>	<u>\$ 1,310,046</u>

Annual debt service requirements to maturity of General Obligation Bonds and Notes, revolving loan fund loans, special assessment notes and Revenue Capital Loan Notes are as follows:

Year Ending June 30	General Obligation Bonds and Notes		Business Park Capital Loan Note		Total Governmental	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 35,000	\$ 5,040	\$ 55,000	\$ 7,295	\$ 90,000	\$ 12,335
2016	35,000	4,778	60,000	5,040	95,000	9,818
2017	35,000	4,305	60,000	2,550	95,000	6,855
2018	35,000	3,833	-	-	35,000	3,833
2019	40,000	3,360	-	-	40,000	3,360
2020 – 2024	120,000	5,040	-	-	120,000	5,040
Total	<u>\$300,000</u>	<u>\$ 26,356</u>	<u>\$ 175,000</u>	<u>\$ 14,885</u>	<u>\$475,000</u>	<u>\$ 41,241</u>

Year Ending June 30	Electric Revenue Revenue Capital Loan Issued 6-15-11		Sewer Relining Project Revenue Capital Loan Issued 8-30-07		Telecommunications Revenue Refunding Capital Loan Notes Issued 10-4-12		Total Business Type	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$115,000	\$ 2,415	\$ 25,000	\$ 11,550	\$ 80,000	\$ 6,600	\$ 220,000	\$ 20,565
2016	-	-	25,000	10,800	80,000	5,000	105,000	15,800
2017	-	-	26,000	10,050	85,000	3,400	111,000	13,450
2018	-	-	27,000	9,270	90,046	1,700	117,046	10,970
2019	-	-	28,000	8,460	-	-	28,000	8,460
2020 – 2024	-	-	152,000	29,190	-	-	152,000	29,190
2025 – 2029	-	-	102,000	6,180	-	-	102,000	6,180
Total	<u>\$115,000</u>	<u>\$ 2,415</u>	<u>\$385,000</u>	<u>\$ 85,500</u>	<u>\$335,046</u>	<u>\$16,700</u>	<u>\$ 835,046</u>	<u>\$104,615</u>

In September 2006, the City issued \$515,000 of bond anticipation notes to finance the development of the Business Park. The notes mature June 1, 2017 and accrue interest at up to 4.25%. Payments for these bonds will come from the Debt Service Fund and the Business Park Fund.

In January 2011, the City was authorized to issue bond anticipation notes to finance the planning and repairs and maintenance to the City's sewer system. The sewer system update began in April 2012 and was completed in August 2012 with bonds originally issued in the amount of \$520,000 to mature in 2022.

**CITY OF PAULLINA, IOWA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 3 – BONDS AND NOTES PAYABLE (CONTINUED)

In April 2012, the City issued \$370,000 of General Obligation bonds to fund sewer system repair and maintenance. The new bond has an outstanding balance of \$300,000 as of June 30, 2014. The 2012 bond carries an average interest rate of 1.77% over ten years and matures in 2022.

In October 2012, the City issued \$410,000 Telecommunications Revenue Refunding Capital Loan Notes to refund the 2004 Telecommunications Revenue Capital Loan Notes dated April 1, 2004. The 2012 bond carries an interest rate of 2% over five years and matures in 2018.

NOTE 4 – PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

The City's payroll for employees covered by the System for the year ended June 30, 2014 was \$406,492. The total City payroll for the fiscal year was \$425,903. All full-time City employees are eligible to participate in IPERS. Benefits vest after 4 years (or 16 quarters) of service or when the employee attains the age of 55, whichever comes first. Employees are eligible to retire at or after age 55 and are entitled to an annual retirement benefit, payable monthly for life, in an amount calculated on an average of their highest 3 year average salary. IPERS also provides death and disability benefits.

Most regular plan members are required to contribute 5.95% of their annual covered salary and the City is required to contribute 8.93% of annual covered payroll. Contribution requirements are established by State statute. The City's contribution to IPERS for the years ended June 30, 2014, 2013, and 2012, were \$ 36,662, \$32,907 and \$32,640, respectively, equal to the required contributions for each year.

NOTE 5 – RISK MANAGEMENT

The City of Paullina is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 6 – TELECOMMUNICATIONS PROJECT

On May 2, 1999 the City of Paullina entered into a Joint Public Improvement agreement with other communities in O'Brien County, under Chapter 28E of the Code of Iowa, to acquire property and construct facilities to provide telecommunication services to the cities. Each party is responsible for retiring its portion of the debt incurred. The Community Cable Television Agency of O'Brien County is controlled by a jointly appointed Board of Directors and is operated apart from the City's operations. The financial information for the Community Cable Television Agency is not included in the City's financial statements.

CITY OF PAULLINA, IOWA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 7 – INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2014, is as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 311,817	\$ 216,525
Debt Service	128,975	25,000
Emergency	-	6,478
Employee Benefits	21,830	-
Urban Renewal – TIF	-	7,511
Business Park	200,000	-
Sewer Rehab	-	45,059
Local Option Sales Tax	-	109,151
Water	-	16,000
Electric	16,525	190,181
Sewer	36,758	-
Telecommunications	-	100,000
	<u>\$ 715,905</u>	<u>\$ 715,905</u>

Transfers are used to:

1. Move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them.
2. Move revenues restricted to debt service from the fund collecting the revenues to the debt service fund as debt service payments become due.

OTHER INFORMATION

CITY OF PAULLINA, IOWA
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS,
DISBURSEMENTS AND CHANGES IN BALANCES BUDGET AND ACTUAL
(CASH BASIS)- ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
For the Year Ended June 30, 2014

	Budgeted Amount		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts:				
Taxes	\$ 263,721	\$ 263,721	\$ 264,547	\$ 826
Special Assessments	7,000	7,000	3,278	(3,722)
Licenses and Permits	3,090	3,090	2,869	(221)
Intergovernmental	128,904	128,904	139,327	10,423
Charges for Services	1,749,239	1,749,239	1,790,553	41,314
Contributions		-	27,636	27,636
TIF Revenue	7,417	7,417	7,494	77
Local Option Sales Tax	104,305	104,305	109,149	4,844
Rental of City Property	23,326	23,326	17,229	(6,097)
Interest	20,000	20,000	14,345	(5,655)
Miscellaneous	44,500	44,500	51,303	6,803
Total Receipts	2,351,502	2,351,502	2,427,730	76,228
Disbursements				
Public Safety	246,862	267,862	273,673	(5,811)
Public Works	288,461	292,461	169,761	122,700
Health and Social Services	3,600	3,600	3,600	-
Culture and Recreation	143,916	193,916	163,310	30,606
Community and Economic Development	33,000	33,000	26,708	6,292
General Government	116,434	116,434	109,601	6,833
Capital Projects	18,295	379,095	314,703	64,392
Debt Service				
Principal Retirement	90,000	90,000	90,000	-
Interest	15,826	15,926	15,925	1
Business Type / Enterprises	1,619,142	1,619,142	1,472,059	147,083
Total Disbursements	2,575,536	3,011,436	2,639,340	372,096
Excess (deficiency) of receipts over disbursements	(224,034)	(659,934)	(211,610)	448,324
Other financing sources (uses):				
Sale of Assets	1,500	301,366	301,665	299
Transfers In	290,026	745,086	715,905	(29,181)
Transfers (Out)	(290,026)	(745,086)	(715,905)	29,181
Total other financing sources (uses)	1,500	301,366	301,665	299
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(222,534)	(358,568)	90,055	448,623
Balances Beginning of Year	2,781,760	2,781,760	2,781,760	-
Balances End of Year	\$ 2,559,226	\$ 2,423,192	\$ 2,871,815	\$ 448,623

CITY OF PAULLINA, IOWA
NOTES TO OTHER INFORMATION – BUDGETARY REPORTING
JUNE 30, 2014

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the Internal Service Fund. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, a budget amendment increased budget disbursements by \$435,900. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2014, disbursements exceeded amounts budgeted in the Public Safety function.

OTHER SUPPLEMENTARY INFORMATION

CITY OF PAULLINA, IOWA
COMBINING STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
Governmental Nonmajor Funds
As of and For the Year Ended June 30, 2014

	Special Revenue Funds			
	Emergency	Employee Benefits	Local Option Sales Tax	Urban Renewal Tax Increment
Receipts:				
Property Taxes	\$ 6,464	\$ 42,646	\$ -	\$ -
Special Assessments	-	-	-	-
Tax Increment Financing	-	-	-	7,494
Local Option Sales Tax	-	-	109,149	-
Interest on Investments	14	375	2	17
Total Receipts	6,478	43,021	109,151	7,511
Disbursements:				
Public Safety	-	31,901	-	-
Public Works	-	153	-	-
Culture and Recreation	-	5,396	-	-
General Government	-	15,973	-	-
Total Disbursements	-	53,423	-	-
Excess (Deficiency) of Receipts over Disbursements	6,478	(10,402)	109,151	7,511
Other financing sources (uses):				
Transfers In	-	21,830	-	-
Transfers Out	(6,478)	-	(109,151)	(7,511)
Total other financing sources	(6,478)	21,830	(109,151)	(7,511)
Change in Cash Balances	-	11,428	-	-
Cash Balances Beginning of Year	-	67,353	-	-
Cash Balances End of Year	\$ -	\$ 78,781	\$ -	\$ -
Cash Basis Fund Balances				
Restricted For:				
Employee Benefits	\$ -	\$ 78,781	\$ -	\$ -
Assigned To:				
Capital Improvements	-	-	-	-
Total Cash Basis Fund Balances	\$ -	\$ 78,781	\$ -	\$ -

Schedule 1

Capital Project Funds			Total Governmental Nonmajor Funds	
North Mickley Street	Sewer Rehab	CDBG Housing Rehab		
\$ -	\$ -	\$ -	\$	49,110
3,278	-	-		3,278
-	-	-		7,494
-	-	-		109,149
115	39	-		562
3,393	39	-		169,593
-	-	-		31,901
-	-	-		153
-	-	-		5,396
-	-	17		15,990
-	-	17		53,440
3,393	39	(17)		116,153
-	-	-		21,830
-	(45,059)	-		(168,199)
-	(45,059)	-		(146,369)
3,393	(45,020)	(17)		(30,216)
20,292	45,020	97		132,762
\$ 23,685	\$ -	\$ 80	\$	102,546
\$ -	\$ -	\$ -	\$	78,781
23,685	-	80		23,765
\$ 23,685	\$ -	\$ 80	\$	102,546

CITY OF PAULLINA, IOWA
SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION -
ALL GOVERNMENTAL FUNDS
For the Four Years Ended
June 30, 2014

Schedule 2

	2014	2013	2012	2011
Receipts:				
Property tax	\$ 264,547	\$ 233,032	\$ 219,116	\$ 200,685
Tax increment financing revenue	7,494	7,328	746	15,301
Local Option Sales Tax	109,149	108,462	107,108	108,309
Licenses and permits	2,869	2,622	2,616	2,873
Use of money and property	21,872	25,187	33,186	25,718
Intergovernmental	139,327	339,597	249,681	216,357
Charges for service	118,176	112,172	108,804	94,379
Special Assessments	3,278	3,459	960	10,110
Miscellaneous	78,939	107,546	47,302	43,712
Proceeds from Debt Financing	-	-	369,135	55,264
Sale of Capital Assets	301,665	1,256	1,500	4,835
Total	1,047,316	940,661	1,140,154	777,543
Disbursements:				
Operating:				
Public safety	273,673	254,980	355,539	249,313
Public works	169,761	234,783	234,636	153,713
Health and Social Services	3,600	4,000	-	4,370
Culture and recreation	163,310	81,530	94,287	80,889
Community and economic development	26,708	1,395	2,536	-
General government	109,601	66,071	54,020	51,074
Debt service	105,925	104,069	170,534	95,148
Capital projects	314,703	224,325	446,575	155,754
Total	\$ 1,167,281	\$ 971,153	\$ 1,358,127	\$ 790,261



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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and
Members of the City Council
City of Paullina
Paullina, Iowa

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Paullina, Iowa, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City of Paullina, Iowa's basic financial statements, and have issued our report thereon dated December 3, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Paullina, Iowa's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Paullina, Iowa's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Paullina, Iowa's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings as item II-A-14 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Paullina, Iowa's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2014 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had

an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Paullina, Iowa's Responses to Finding

The City of Paullina's responses to findings identified in our audit are described in the accompanying Schedule of Findings. We did not audit the City of Paullina, Iowa's responses and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by the personnel of the City of Paullina during the course of our audit. If you have any questions concerning any of the above matters, we would be pleased to discuss them with you at your convenience.

William & Lapang, P.C.
Certified Public Accountants

Le Mars, Iowa
December 3, 2014

**CITY OF PAULLINA, IOWA
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014**

Part I – Summary of the Independent Auditor's Results:

- (a) Unmodified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) A material weakness in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

Part II – Findings Related to the Financial Statements:

MATERIAL WEAKNESSES:

II-A-14 Financial Accounting – Segregation of Duties

Observation – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The City Clerk is involved in almost all phases of the finance operations, including cash receipts listing, bank deposits, check preparation, preparation of journal entries, as well as financial reporting and statements.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials.

Response – The City feels that additional personnel would not be cost effective. However, management will monitor transactions on a regular basis.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE

No matters were noted.

**CITY OF PAULLINA, IOWA
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014**

Part III – Other Findings Related to Statutory Reporting

III-A-14 Certified Budget – Disbursements during the year ended June 30, 2014 exceeded the amounts budgeted in the Public Safety function.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

III-B-14 Questionable Disbursement – We noted no disbursements that did not meet the requirements of public purpose as defined in the Attorney General's Opinion dated April 25, 1979.

III-C-14 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

III-D-14 Business Transactions – Business transactions between the City and City officials and/or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction/Description</u>
Mill Creek Machining, Owned by Council Member, Justin Stamer	Supplies, Energy Rebates \$5,914 (1)

(1) This transaction may represent a conflict of interest and the City should contact legal council for determination as per Chapter 331.342 (j) of the Code of Iowa. Per City management it was noted that the City's board did approve the transactions.

III-E-14 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

III-F-14 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

III-G-14 Deposits and Investments – We noted no instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policies.

III-H-14 Revenue Bonds and Notes – No instances of non-compliance with the revenue bond and note resolutions were noted.

III-I-14 Telecommunication Services – No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.

CITY OF PAULLINA, IOWA
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014

Part III – Other Findings Related to Statutory Reporting (Continued)

III-J-14 Debt Service Fund Balance – The City's Debt Service Fund has accumulated a fund balance of \$139,171, an amount in excess of the amount needed.

Recommendation – The City should consider using the amount in the Debt Service Fund to pay debt rather than continuing to levy taxes at the current rates.

Response – The City will use what has been accumulated in the Debt Service Fund and not levy as much for future debt service payments.

Conclusion – Response accepted.

III-K-14 Urban Renewal Annual Report – The urban renewal annual report was approved and certified to the Iowa Department of Management on or before December 1.